ers desiring a complement of value-added features. The proposed offering never assumed any material impact on residential customers who did not want wireless service as part of a bundle. Consequently, while the Project Gateway proposal included a local service and long distance package as one of its five bundled options, the pricing of that option standing alone was not designed to appeal to Southwestern Bell's local exchange subscribers in St. Louis nor would that option have supported a viable business plan.

8. As part of the planning phase for Project Gateway, Ameritech Cellular started an employee user trial of the bundled services and systems on January 26, 1998. By the end of March, there were approximately 390 employees and their families in St. Louis participating in the trial. The trial identified problems in a number of different areas. First, the bill format—which was based on the existing cellular bill—was confusing and difficult for existing customers to understand. Second, the pricing plan, which was designed as a postalized rate, provided value to some customers but limited value to others. The overall discount that customers received was greatest when they purchased local, long distance and cellular, but dropped off significantly as the number of services and features decreased (particularly with long distance and cellular). Third, increased competition in St. Louis was already starting to place greater than anticipated downward pressure on rates for both cellular and long distance service, thus reducing the economic attractiveness of some of the packages for consumers and undercutting the business assumptions supporting

the project. Fourth, performance during the trial was hindered somewhat by order processing errors.

9. The financial prospects for Project Gateway were diminished by the delay past the third quarter of 1997 due to operational problems, reduction in the scope of the proposed offering (from residential and small business to residential only) and challenges in finalizing the proposed service packaging and rates. Even under the proposal's original assumptions, Ameritech Cellular anticipated a net income loss for the first three years and a projected free cash flow loss through the fifth year.

10. The rollout of Project Gateway is on hold. The reason the project is on hold is that the merger agreement created several different Project Gateway scenarios that were not in the best interest of our customers or our shareholders. The first concern is that of Ameritech Cellular's incurring financial losses from the project for the foreseeable future even though there is a substantial probability (at least 50%) that the St. Louis property will be sold to satisfy antitrust and other regulatory requirements. The second concern is that this bundled offering may not be desirable to potential buyers given projected losses and the need for significant additional cash infusions, thereby limiting the number of interested parties willing to bid for the property and potentially lowering the price for the property. Lastly, if Ameritech were to roll out the service only to have the new owner discontinue the offering, customer confusion and inconvenience would likely result.

11. In addition to the merger related concerns, the need to address operational issues also facilitated the decision for the project to be placed on hold. These issues included changing the bill format to be more user friendly (which would take approximately 4-6 months) and expanding the pricing plans to increase the number of cellular customers to whom we can deliver attractive offerings. Additional work was also deemed necessary in order to correct order processing errors, and to train Southwestern Bell technicians and Ameritech sales and service representatives.

12. A separate and important operational issue also contributed to the decision to place the project on hold. Ameritech Cellular had begun to convert its St. Louis wireless system to digital service, a major undertaking to enhance the performance and acceptance of cellular service. Continuing the digital rollout and implementing a bundled service offering simultaneously would be extremely challenging. The network and IT side of the business, as well as the sales and marketing end, would have had difficulty supporting two distinctly different marketing programs.

13. Finally, the Ameritech bundled offering has become a lower priority since the new PCS entrants have not offered a bundled services offering to date, as originally anticipated as a part of Project Gateway.

14. The decision to put the trial on hold was solely and unilaterally reached by Ameritech.

I declare under penalty of perjury that the foregoing statements are true and correct.

Paul G. Osland

Sworn and subscribed before me

this 21st of July, 1998

"OFFICIAL SEAL"
CATHERINE LAAKKO
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES 3/10/2002

NOTARY PUBLIC

My Commission Expires: 3/10/2002

Pursuant to 47 C.F.R. §§ 1.743(c), 1.913(c), 5.54(c), the preceding document is a copy of the original signed affidavit, which was filed as an attachment to Exhibit 2 to the Form 490 applying for the Commission's consent to transfer control of Part 22 licenses held by Detroit SMSA Limited Partnership from Ameritech Corporation to SBC Communications Inc. That Form 490 was filed concurrently with this application.

AFFIDAVIT OF FRANCIS X. PAMPUSH

WASHINGTON)
) SS:
DISTRICT OF COLUMBIA)

FRANCIS X. PAMPUSH, being duly sworn, deposes and says:

I. Introduction

1. My name is Francis X. Pampush. I am Director of Economic and Policy Studies at Ameritech Corporation. My business address is 35th Floor, 30 South Wacker Drive, Chicago, Illinois 60606.

2. I earned a Bachelor of Arts degree in economics from Miami University in Oxford, Ohio in 1976. In 1988, I received a doctorate degree in economics from the University of North Carolina at Chapel Hill, where my dissertation was on telecommunications pricing issues. I have also earned the professional designation of Chartered Financial Analyst from the Association of Investment Management and Research. I have taught economics at the University of North Carolina at the undergraduate level and economics and finance at North Carolina State University and Georgia State University at the MBA level.

3. During my studies at the University of North Carolina, I was also employed at the Research Triangle Institute as a research economist, working

primarily with the Department of Energy and various investor-owned electric utilities. From 1982 to 1991, I was employed by BellSouth Corporation in various regulatory and planning positions. From 1991 to 1996, I was a consultant with Southern Engineering Company, where my work involved providing economic analysis and counsel to industries in network industries emerging into competitive markets, such as telecommunications and electricity.

4. I have held my position at Ameritech since May 1996. My duties are to provide economic counsel on a variety of public interest, policy and business issues. As part of my responsibilities, I oversee or coordinate the analysis and reporting of competitive information that is used by Ameritech both internally and in public forums at the state and federal levels. I have represented Ameritech before the Federal Communications Commission (the "Commission") on the issue of competitive analysis. In fulfilling my competitive analysis responsibilities, I use existing Ameritech reports and I also have prepared for my own use specific reports on the competitive situation. As part of my job, I continuously assess the market and regulatory circumstances in the Ameritech states.

5. The purpose of my testimony is to describe the nature and extent of local exchange competition that Ameritech faces in its five state service territory of

Illinois, Indiana, Michigan, Ohio, and Wisconsin.[1] My market focus is on the land-line local exchange business.

6. Section II provides a snapshot of the competitive situation in the local exchange business in the Ameritech service territories. The review describes the situation with total service resale ("TSR") as well as facilities-based competition. The major conclusion is that competitors have successfully obtained customers by both the resale and facilities-based method.

II. Competition in Local Exchange Services

A. Summary of Competitors

7. As of May 1998, 231 telecommunications carriers had obtained certification to provide competing local exchange service in one or more of Ameritech's in-region states.[2] As of May 1998, Ameritech had signed interconnection agreements with 201 competing providers of local exchange service. At present, 175 of the agreements have been approved by state commissions. To the best of Ameritech's knowledge, approximately 50 companies are actually engaged in some type of local exchange competitive activity (either offering retail service or whole-

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1 Ameritech's service territory covers about 25 percent of the five-state area, but contains about 72 percent of the state access lines.

2 This does not include agreements with Ameritech affiliates.

sale elements) or are building facilities to offer such services.[3] Attachment A lists the firms that are active in each state in the region, and based on historical growth, more are expected.

8. Attachment A shows that the active competitors include integrated telecommunications providers such as WorldCom/MCI/Brooks/MFS/ UUNet and AT&T/TCG/TCI that are international in scope. The list also includes resellers such as USN Communications and Millennium that are national or regional in scope. Some of the providers, such as QST, are pure wholesalers or "carriers' carriers." Others, such as Winstar, provide both wholesale (transport) services and retail services (both TSR and facilities-based). The active firms range from the small, home-grown (Phone Michigan) to the multi-nationals (AT&T/TCG/TCI). The firms use a variety of entry methods to provide suites of retail exchange and exchange access voice services, data services and (in some cases) wholesale transport services.

B. Resale Competition

9. At least thirty-seven of the 50 active CLECs offer some local exchange telephone service by reselling Ameritech services that are purchased at an

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[3] The list of active CLECs is derived from Ameritech provisioning data (e.g., unbundled loops, end-off integration trunks or resold lines), from press releases or Internet web site statements of the companies themselves or from the trade press.

avoided-cost discount.[4] As of May 1998, these competitors were reselling over 635,000 lines region wide, an increase of 473 percent over year-ago levels. This increase occurred despite the widely-publicized decision by AT&T to stop marketing (but to continue selling) lines. With the exception of Indiana, the geographic coverage of resold lines is almost complete throughout the Ameritech five-state region. The ubiquity of the resold lines demonstrates that nearly every Ameritech customer, outside of Indiana, has available at his or her neighborhood wire center at least one, and sometimes several, alternative providers of resold local exchange services.

10. The resale of the ILEC's retail services at avoided-cost discounts is not just an initial entry strategy. For example, USN Communications, Inc. is building a business case on a resale strategy. As of last February, the Chicago-based firm said it had sold almost one-quarter million lines.[5] Millennium is another firm that is operating in the region on a pure resale basis.

11. Resale competition is included in this review because it is an important form of local competition. The resale of Ameritech lines has an important disciplining effect on the local market segment. First, there is the price aspect. The

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[4] In Chicago, 13 entrants resell local service. See, Description of the Transaction, Public Interest Showing and Related Documents (Public Interest) at Table 6.

[5] "USN Communications Sells 220,000 Lines," Newsbytes, February 17, 1998.

wholesale discount varies somewhat from state to state, and service by service, but in Ameritech's region, over most all services, it averages about 20 percent. Accordingly, resellers can and do undercut Ameritech retail rates, even after covering marketing and billing costs. Second, resellers can combine resold Ameritech lines with other Ameritech services or with services from third parties (e.g., cable TV, Internet access, long-distance) to create unique competitive packages. Such creative marketing and packaging competition is clearly a consumer benefit.

12. Finally, resellers fill an informational role; their marketing efforts demonstrate that there are numerous firms from which customers can select service and thus create an overall awareness that competitive alternatives are available. Other firms, including facilities-based entrants, benefit from the spillover effect that reseller marketing can have to educate the consumer as to the existence and capabilities of new providers. Accordingly, resellers play an important role in the development of the competitive telecommunications market that inures to the benefit of both consumers and other competitive entrants.

C. Facilities-based Competition

13. To date, at least 20 companies in the Ameritech-served region provide local exchange, exchange access, or wholesale elements (*e.g.*, rights of way, transport, or switching services) over their own facilities. The growth of facilities-based

exchange access service can be seen by end-office integration trunks.[6] According to the data provided by Mr. Appenzeler, Ameritech now provides (as of June 22, 1998) over 180,000 EOI trunks. Ameritech also provides over 94,000 unbundled loops. In addition, the facilities-based CLECs operate (or are expected to be operating by year-end) over 120 switches in the region. The switches include Nortel DMS 100's and 500's and Lucent 5ESS's, the same switches used by any major telecommunications carrier including Ameritech.

14. As of July 1, 1998, CLECs have co-located their equipment in more than 260 wire centers in the Ameritech region, or about 23 percent of the wire centers. Co-location in these wire centers permits co-located CLECs to access about 63 percent of all Ameritech-served business lines and over 50 percent of all Ameritech-served residential lines, exclusive of the potential customers that can be reached via a direct connection to the CLEC's own network. And today, CLECs have backbone networks of over 5,000 route miles, covering the most dense areas of the local exchange market. CLECs therefore can access their primary customer target (business customers) while economizing on hard asset deployment.

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[6] End-office integration trunks connect CLEC switches to Ameritech tandem offices (or end-offices) for purposes of exchanging traffic. Each trunk group is expressed as a DS-O (64 kbps) equivalent.

I declare under penalty of perjury that the foregoing statements are true and correct.

Francis X. Pampush

Sworn and subscribed before me

this 21 of July, 1998

NOTARY PUBLIC

My Commission Expires: 10/14/99

Pursuant to 47 C.F.R. §§ 1.743(c), 1.913(c), 5.54(c), the preceding document is a copy of the original signed affidavit, which was filed as an attachment to Exhibit 2 to the Form 490 applying for the Commission's consent to transfer control of Part 22 licenses held by Detroit SMSA Limited Partnership from Ameritech Corporation to SBC Communications Inc. That Form 490 was filed concurrently with this application.

Actively Competing CLECs - Region

CLEC	Method		Target		Data &					
	Resl	FB	Bus	Res	Internet	IL	IN	MI	OH	WI
AMI	X					X				
Annox, Inc.	X			X			X			
AT&T/TCG/TCI	X	X	X	X	Yes	X	X	X	X	X
Buckeye									X	
Building Communications, Inc.	X		X	X				X		
Caltech Telecom Group	X		X	X		X				
Cimco Communications	X		X	X		X	X			X
Clarity	X		X			X				
Climax		X						X		
CMC	X		X	X				X		
Communications Buying Group	X		X						X	
Communications Options	X								X	
Dakota Services		X	X		Yes			X		
Digicom	X								X	
Easton	X		X					X	X	
Focal Communications		X	X			X	X			
Frontier Communications	X	X	X			X	X	X	X	X
Global Telecom	X		X			X			X	X
Globalcom	X		X			X	X			X
ICG Telecom Group, Inc.	X	X	X		Yes				X	
Intermedia		X	X		Yes	X	X			
KMC		X	X							X
LCI	X		X			X	X	X	X	
LJSS General	X					X				
MCI Metro	X	X	X	X	Yes	X		X	X	X
McLeodUSA (CCT)	X	X	X	X	Yes	X				X
MGC Communications		X	X			X				
Midplains Communications	X		X							X
Midwestern Telecom	X			X		X				
Millennium	X		X	X		X		X	X	X
Network Recovery Services	X		X	X						X
Nextlink		X	X		Yes	X	X	X	X	
OCOM (CellularOne)	X		X	X					X	
Omniplex Communications	X		X	X		X				
OnePoint Communications	X			X		X				
One-Stop Communications	X		X	X		X				
Phone Michigan		X	X	X				X		
PSC Primeco		X	X	X		X	X			X
QST Communications		X				X				
Qwest		X				X				
Sprint	X		X	X		X				
TDS	X		X					X		X
Telephone Associates	X		X							X
Time Warner		X	X				X		X	X
United Communications, Inc.	X		X			X				X
US XChange	X		X	X			X			X
Ushman Communications	X		X			X				
USN Communications	X		X	X		X	X	X	X	X
WinStar	X		X	X	Yes	X		X	X	X
Worldcom/MFS/Brooks	X	X	X		Yes	X	X	X	X	X
50	37	18	39	21	9	30	14	16	18	20

Actively Competing CLECs - Illinois

CLEC	Method		Target		Data /		Activity
	Resl	FB	Bus	Res	Internet	Il	
AMI	X					X	Business services
AT&T/TCG/TCI	X	X	X	X	Yes	X	Facilities via TCG
Caltech Telecom Group	X		X	X		X	
Cimco Communications	X		X	X		X	Mostly enhanced data, but opening voice in Il.
Clarity	X		X			X	34 resale lines in April report.
Focal Communications		X	X			X	Business services
Frontier Communications	X	X	X			X	Local in selected areas, LD (throughout territory).
Global Telecom	X		X			X	
Globalcom	X		X			X	Reseller.
Intermedia		X	X		Yes	X	Enhanced data, but plans for voice-over.
LCI	X		X			X	Fac.-based and reseller in most of 5 states.
LJSS General	X					X	Some resale lines
MCI Metro	X	X	X	X	Yes	X	Uses UBL, EOI, resale, and res/bus white pages.
McLeodUSA (CCT)	X	X	X	X	Yes	X	Bought CCT: resale from MCLD, CCT has fac.
MGC Communications		X	X			X	MSA-1 of Il.
Midwestern Telecom	X			X		X	Reseller.
Millennium	X		X	X		X	Reseller: mostly Wis & Il.
Nextlink		X	X		Yes	X	Fac.-based mostly in Ohio. DSL in Michigan.
Omniplex Communications	X		X	X		X	Reseller.
OnePoint Communications	X			X		X	Reseller.
One-Stop Communications	X		X	X		X	Reseller in Illinois focusing on businesses.
PSC Primeco		X	X	X		X	Wireless PCS covering Gary, Chicago, Milwaukee.
QST Communications		X				X	Cilcorp sub providing whlsl transport
Qwest		X				X	Co-location only.
Sprint	X		X	X		X	Local, long-distance, PCS: facilities-based.
United Communications, Inc.	X		X			X	Reseller
Ushman Communications	X		X			X	Reseller.
USN Communications	X		X	X		X	Reseller
WinStar	X		X	X	Yes	X	Wireless Hi-CAP; switched services in Chicago.
Worldcom/MFS/Brooks	X	X	X		Yes	X	Fully integrated (LD, local, enhanced data) provider.
TOTAL	**23**	**12**	**24**	**14**	**7**	**30**	

Actively Competing CLECs - Indiana

CLEC	Method		Target		Data / Internet	Count	Activity
	Resl	FB	Bus	Res			
Annox, Inc.	X			X		X	Reseller with white pages listings.
AT&T/TCG/TCI		X	X		Yes	X	Facilities via TCG
Cimco Communications	X		X	X		X	Mostly enhanced data, but opening voice in Il.
Focal Communications		X	X			X	EOI, but no co-location.
Frontier Communications	X		X			X	Local in selected areas, LD (throughout territory).
Globalcom	X		X			X	Reseller
Intermedia		X	X		Yes	X	Enhanced data, but plans for voice-over.
LCI	X		X			X	Fac.-based and reseller in most of 5 states.
NextLink		X	X			X	EOI. Building, but not selling.
PSC Primeco		X				X	Wireless PCS covering Gary, Chicago, Milwaukee.
Time Warner		X	X			X	Facilities-based, offering voice in Columbus Ohio.
US XChange	X		X	X		X	Active primarily in Wisconsin (Appleton).
USN Communications	X		X	X		X	Reseller
Worldcom/MFS/Brooks	X	X	X		Yes	X	Fully integrated (LD, local, enhanced data) provider.
TOTAL	**8**	**7**	**12**	**4**	**3**	**14**	

(Resellers and facilities-based. Various sources)

Actively Competing CLECs - Michigan

CLEC	Method		Target		Data /		
	Resl	FB	Bus	Res	Internet	Mi	Activity
AT&T/TCG/TCI	X		X	X	Yes	X	Facilities via TCG
Building Communications, Inc.	X		X	X		X	Integrated services to MDUs.
Climax		X				X	ICO expanding territory. EOI trunks and UBL.
CMC	X		X	X		X	Resale
Dakota Services		X	X		Yes	X	DSL via unbundled loops
Easton	X		X			X	Resale.
Frontier Communications	X		X			X	Local in selected areas, LD (throughout territory).
LCI	X		X	X		X	Resale
MCI Metro	X	X	X	X	Yes	X	Uses UBL, EOI, resale, and res/bus white pages.
Millennium	X		X	X		X	Reseller: mostly Wis & Il.
Nextlink		X	X		Yes	X	Fac.-based mostly in Ohio. DSL in Michigan.
Phone Michigan		X	X	X		X	Fac.-based focused in Michigan.
TDS	X		X			X	Resale.
USN Communications	X		X	X		X	Reseller
Winstar		X	X		Yes	X	Acquired Midcom. Wireless CAP.
Worldcom/MFS/Brooks	X	X	X	X	Yes	X	Fully integrated (LD, local, enhanced data) provider.
TOTAL	**11**	**7**	**15**	**9**	**6**	**15**	

(Resellers and facilities-based. Various sources)

Actively Competing CLECs - Ohio

CLEC	Method		Target		Data / Internet	Count	Activity
	Resl	FB	Bus	Res			
AT&T/TCG/TCI	X	X	X		Yes	X	Facilities primarily through TCG
Buckeye						X	
Communications Buying Group, In	X		X			X	Reseller recently purchased by ICG.
Communications Options	X					X	Reseller.
Digicom	X					X	Reseller.
Easton	X					X	Reseller.
Frontier Communications	X		X			X	Local in selected areas, LD (throughout territory).
Global Telecom	X		X			X	Reseller.
ICG Telecom Group, Inc.	X	X	X		Yes	X	Fac.-based offering voice and enhanced data in Ohio.
LCI	X		X			X	Fac.-based and reseller in most of 5 AIT states.
MCI Metro	X	X	X		Yes	X	Intends to merge with Worldcom.
Millennium	X					X	Reseller: mostly Wis & Il.
Nextlink		X	X			X	Facilities-based carrier mostly in Ohio.
OCOM (CellularOne)	X		X	X		X	Reseller in Columbus area per news stories.
Time Warner		X	X			X	5ESS and fiber in Columbus also offers cable TV.
USN Communications	X		X	X		X	Reseller.
Winstar		X	X			X	EOI, CAP services.
Worldcom/MFS/Brooks	X	X	X		Yes	X	Access svcs; resold lines; has infrastructure.
TOTAL	**14**	**7**	**13**	**2**	**4**	**18**	

(Resellers and facilities-based. Various sources)

Actively Competing CLECs - Wisconsin

CLEC	Method		Target		Data /		Activity
	Resl	FB	Bus	Res	Internet	Wi	
AT&T/TCG/TCI	X	X	X	X	Yes	X	Facilities primarily through TCG
Cimco Communications	X		X	X		X	Mostly enhanced data, but opening voice in Il.
Frontier Communications	X		X	X		X	Local in selected areas, LD (throughout territory).
Global Telecom	X		X	X		X	Reseller.
Globalcom	X		X			X	Reseller.
KMC		X	X			X	Non-utility elec. generator branched into telecom.
MCI Metro	X	X	X	X	Yes	X	Uses UBL, EOI, resale, and res/bus white pages.
McLeodUSA	X		X		Yes	X	Fac-based and Centrex-block reseller in Il, Wis.
Midplains Communications	X		X			X	Reseller.
Millennium	X		X	X		X	Reseller: mostly Wis & Il.
Network Recovery Services	X		X	X		X	Reseller
PSC Primeco		X	X	X		X	Wireless PCS covering Gary, Chicago, Milwaukee.
TDS	X		X			X	Wisconsin ICO with many wireless properties.
Telephone Associates	X		X			X	Milwaukee
Time Warner		X	X			X	Facilities-based, offering voice.
United Communications, Inc.	X		X			X	Reseller
US XChange	X	X	X	X		X	Active primarily in Wisconsin (Appleton).
USN Communications	X		X	X		X	Reseller
WinStar	X		X	X	Yes	X	Wireless Hi-CAP; switched services in Chicago.
Worldcom/MFS/Brooks	X		X			X	Reseller.
TOTAL	**17**	**6**	**20**	**11**	**4**	**20**	

(Resellers and facilities-based. Various sources)